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Message Text

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TAGS: ECON, OECD
SUBJECT: EDRC ANNUAL REVIEW OF TURKEY, JULY 16

REF: (A) ANKARA 5527; (B) USOECD 16904; (C) OECD DOC EDR(74)27

1. SUMMARY: ANNUAL REVIEW FOCUSED ON INFLATION PROBLEM AND TURKEY'S MEASURES TO CONTROL IT. THERE WAS GENERAL FEELING THAT CURRENT MEASURES WERE INSUFFICIENT TO ACHIEVE HALVING OF INFLATION RATE BY END OF 1974. TURKISH DEL SEEMED MORE CONCERNED WITH SOCIAL JUSTICE THAN WITH CONTROL OF INFLATION, AND INDICATED THAT WAGE RESTRAINTS AND TAX INCREASES WOULD BE POLITICALLY UNACCEPTABLE. MAIN THRUST OF PLANNED ANTI-INFLATION PROGRAM WILL BE REDUCTION OF BUDGETED PUBLIC EXPENDITURES AND INCREASE IN INTEREST RATES TO ENCOURAGE SAVINGS. BALANCE OF PAYMENTS NOT EXPECTED TO BE MAJOR PROBLEM, DESPITE ENERGY PRICE RISES AND CONTINUED LIBERAL IMPORT POLICY. END SUMMARY.
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2. GROWTH OF OUTPUT AND DEMAND. TURKS SEE GNP RISING ALMOST 9 PERCENT IN REAL TERMS IN 1974. MAIN AREAS OF STRENGTH WILL BE AGRICULTURE, MINING AND ENERGY PRODUCTION; MAIN WEAKNESSES IN MANUFACTURING AND PRIVATE CONSTRUCTION. ON DEMAND SIDE, TURKS AIMING TO HOLD PUBLIC CONSUMPTION TO REAL 1973 LEVELS AND INCREASE PUBLIC INVESTMENT BY 38 PERCENT. SECRETARIAT DOUBTS THEY WILL ACHIEVE EITHER OBJECTIVE.

3. OUTLOOK FOR INFLATION. TURKS NOTED WPI RISING AT 39 PERCENT ANNUAL RATE AT END OF MAY, BUT THEY HOPEFUL THAT TREND WILL NOT CONTINUE NOW THAT OIL AND WHEAT PRICES ARE STABILIZING IN INTERNATIONAL MARKETS AND DOMESTIC SUPPLY SITUATION IS IMPROVING. SUPPLY BOTTLENECKS EXPECTED BE LESS SERIOUS IN 1974 AS AGRICULTURAL PRODUCTION INCREASES, AND GOT WILL CONTINUE POLICY OF IMPORT LIBERALIZATION COMBINED WITH SELECTIVE EXPORT RESTRAINTS ON SHORT SUPPLY ITEMS.

4. ANTI-INFLATION POLICY. TURKS MADE CLEAR THEIR COMMITMENT TO REDUCING IMPACT OF INFLATION ON LOWEST INCOME GROUPS,AND REPEATEDLY NOTED HIGH PRIORITY TO OBJECTIVE OF "SOCIAL JUSTICE". THEY PLAN TO CONTINUE SUPPORT PRICES FOR AGRICULTURE, DESPITE SECRETARIAT RECOMMENDATION TO CONTRARY AND DESPITE INDICATIONS THAT FARM INCOMES HAVE NOT SUFFERED FROM RECENT INFLATIONARY DEVELOPMENTS. MOREOVER, SECRETARIAT NOTED MINIMUM WAGES HAVE BEEN INCREASED MORE THAN 60 PERCENT, AND THAT SALARIES OF GOVERNMENT CIVIL SERVANTS WERE INCREASED SUBSTANTIALLY IN 1973 AND WILL BE AGAIN IN 1974. SECRETARIAT SEES DANGER OF WAGE SPIRAL IF ALL LEGITIMATE WAGE CLAIMS ARE MET, BUT TURKS NOT AT PRESENT PREPARED TO CONSIDER RESTRAINTS ON INCOMES OF POOREST GROUPS.

5. MAIN THRUST OF TURKISH FIGHT AGAINST INFLATION WILL BE THROUGH DEMAND MANAGEMENT POLICIES. TURKS SEE EXCESS DEMAND OF ABOUT 6-7 BILLION LIRE WHICH THEY HOPE TO CHANNEL INTO SAVINGS AND INVESTMENT VIA INCREASED RATE OF INTEREST ON SAVINGS DEPOSITS AND
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SELECTIVE CREDIT CONTROLS ON BANK LENDING. THEY PARTICULARLY ANXIOUS TO REDIRECT WORKER REMITTANCES WHICH HAVE GONE LARGELY INTO CONSUMPTION AND HAVE GIVEN IMPETUS TO INFLATION. THIS WILL BE ACHIEVED BY CREATION OF GOVERNMENT HOLDING CORPORATION TO CHANNEL SAVINGS INTO "PEOPLE'S SECTOR" PROJECTS INVOLVING OWNERSHIP OF LOCAL INDUSTRIES, AND BY ALLOWING COMMERCIAL BANKS TO ACCEPT FOREIGN EXCHANGE REMITTANCES

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DIRECTLY.

6. FISCAL MEASURES TO CONTROL INFLATION WILL INVOLVE CUTS IN PUBLIC EXPENDITURE (OTHER THAN INVESTMENT) BY UP TO 10-20 PERCENT OF 1974 BUDGETED LEVELS. THIS WILL INVOLVE 6.2 BILLION LIRE REDUCTION IN EXPENDITURES, WHICH WILL BE OFFSET BY REDUCED INTERNAL

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BORROWING OF SIMILAR AMOUNTS. EFFECT WILL BE TO DIMINISH SIZE OF TRANSFER FROM PRIVATE SAVINGS TO PUBLIC CONSUMPTION, AND TO GIVE COMMERCIAL BANKS MORE LATITUDE IN RAISING FUNDS. (COMMENT: TURKS DID NOT MAKE CLEAR WHAT PLANNED EXPENDITURES WOULD BE CUT, AND SECRETARIAT (KUEHN) BELIEVES TURKISH DEL HAD NO PRECISE KNOWLEDGE OF MEASURES TO BE TAKEN BY CABINET.

7. GOT ALSO HAS AUTHORITY TO CUT TRANSFER PAYMENTS,

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BUT TURKISH DEL RESISTED SUGGESTIONS THAT TRANSFERS TO STATE ENTERPRISES MIGHT BE REDUCED. HE POINTED OUT THAT STATE ENTERPRISES ACCOUNTED FOR ONLY 5 BILLION LIRE OUT OF TOTAL TRANSFERS OF 24 BILLION LIRE. HE OBJECTED TO SUGGESTIONS THAT AIDS TO PRIVATE INVESTORS WOULD BE MORE PRODUCTIVE, AND DEFENDED KEY ROLE OF STATE ENTERPRISES IN TURKISH DEVELOPMENT PROCESS. HE ALSO REQUESTED THAT PARA 36 REFDOC BE DELETED BUT CHAIRMAN AND OTHERS SUCCESSFULLY RESISTED
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THIS EFFORT TO SUPPRESS PROBLEM OF STATE ENTERPRISES BY NOT TALKING ABOUT IT.

8. EDRC MEMBERS EXPRESSED DOUBT REGARDING TURKISH ABILITY TO ACHIEVE HALVING OF INFLATION RATE BY END OF YEAR, AND IMPLIED THAT MORE SHOULD BE DONE TO RE-STRAIN WAGES AND PUBLIC EXPEHDITURES. ONLY UK REP SUGGESTED THAT RESTRICTIVE MEASURES MIGHT HAVE UN-DESIRABLE SIDE EFFECTS ON EMPLOYMENT. TURKS AGREED WITH UK AND REITERATED POLITICAL IMPOSSIBILITIES OF LARGE REDUCTION IN CONSUMER DEMAND AND UNDESIRABILITY OF FURTHER CUTBACKS IN PUBLIC EXPENTITURE.

9. GERMAN REP ASKED WHAT ROLE FOREIGN PRIVATE IN-VESTMENT MIGHT PLAY IN RAISING INVESTMENT RATIO AND FILLING DOMESTIC SAVINGS GAP. TURKS REPLIED THAT FI WOULD BE WELCOME IF IT (A) BRINGS MODERN TECHNOLOGY, (B) IS EXPORT ORIENTED, OR (C) INVOLVES LARGE CAPITAL INFLOW. US REP ASKED REGARDING MEASURES TO ASSURE FAVORABLE INVESTMENT CLIMATE, AND WAS TOLD THAT PRESENT GOVERNMENT WAS ENCOURAGING FI AS IN PAST, AND THAT CLIMATE REMAINED GOOD.

10. BALANCE OF PAYMENTS: TURKS AGREED WITH SECRE-TARIAT ESTIMATE THAT CURRENT ACCOUNT DEFICIT WOULD BE CLOSE TO $500 MILLION IN 1974. HOWEVER, IN DOING SO, THEY IMPLICITLY ADMITTED THAT THEIR ESTIMATES FOR IMPORTS WERE TOO LOW AT $3.3 BILLION. SECRETARIAT POINTED OUT THAT THIS FIGURE WAS 55 PERCENT ABOVE 1973 LEVEL, WHILE TURKS WERE CLAIMING IMPORT PRICES HAD RISEN 67 PERCENT, LEADING TO UNLIKELY CONCLUSION THAT VOLUME OF IMPORTS WAS DECLINING. TURKS AGREED THAT THERE WOULD BE REAL INCREASE IN IMPORTS IN 1974, DUE LARGELY TO REDUCTION OF CUSTOMS DUTIES. ON EXPORT SIDE, TURKS PREDICTED EXPORTS WOULD REACH $L.75 BILLION AND WORKERS REMITTANCES $L.32 BILLION. EX-PORT PROMOTION EFFORTS WOULD CONTINUE IN FORM OF TAX REBATES AND INTEREST RATE SUBSIDIES ON MEDIUM TERM CREDITS, PLUS SELECTIVE CREDIT CONTROLS FAVORING

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EXPORTERS. REMITTANCES EXPECTED TO REMAIN STRONG, AND
TURKEY NOT ALARMED BY PRESENT CURRENT ACCOUNT OUTLOOK.
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11. EDRC REPS EXPRESSED DOUBT RE TURKISH ABILITY
TO EXPAND EXPORTS WHEN WORLD DEMAND IS WEAKENING AND
RATE OF INFLATION IN TURKEY IS GREATER THAN IN
TRADING PARTNERS. TURKISH DEL AGREED THIS COULD BE
PROBLEM, AS AGRICULTURAL PRICE BOOM WOULD NOT CONTINUE
AND INDUSTRIAL EXPORTS, ON WHICH TURKEY PLACES HIGH
HOPES, MIGHT BECOME LESS COMPETITIVE.

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12. MEDIUM TERM PROSPECTS. BOTH GERMAN AND US REPS QUESTIONED TURKISH EMPHASIS ON INDUSTRIALIZATION IN VIEW CHRONIC STRUCTURAL EMPLOYMENT PROBLEM. TURKS AGREED EMPLOYMENT WAS MAIN PROBLEM, BUT INDUSTRIALIZATION MUST CONTINUE IF TURKEY IS TO ACHIEVE FULL MEMBERSHIP IN EC BY 1995. TURKISH REP BELIEVED POPULATION CONTROL WOULD NOT HELP SOLVE EMPLOYMENT PROBLEM IN NEXT 22 YEARS, SINCE EXPECTED 12 MILLION ADDITION TO LABOR FORCE ALREADY ON SCENE. GERMAN REP POINTED
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OUT, THOUGH, THAT REDUCED POPULATION WOULD RELIEVE PRESSURE ON CONSUMPTION AND FREE RESOURCES FOR PRODUCTIVE INVESTMENT. WITH REGARD TO POSSIBLE CHANGES IN 5 YEAR PLAN, TURKS SAID THEY HAD NO SPECIFIC PLANS, BUT WOULD MAKE CHANGES "IF NECESSARY".
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